



Internal Audit Report

RTI Billings/Accounts Payable

TxDOT Office of Internal Audit

Objective

To determine if the invoice review process ensures the receipt of goods and services in accordance with laws and department policies.

Opinion

Based on the audit scope areas reviewed, control mechanisms require improvement and only partially address risk factors and exposures considered significant relative to impacting financial reporting reliability, operational execution, and regulatory compliance. The organization's system of internal controls requires improvement in order to provide reasonable assurance that key goals and objectives will be achieved. Significant improvements are required to correct control gaps and mitigate residual risk that may result in potentially significant negative impacts to the organization including the achievement of the organization's business/control objectives.

Overall Engagement Assessment		Needs Improvement		
Findings				
	Title	Control Design	Operating Effectiveness	Rating
Finding 1	IT Controls and Security	X	X	Needs Improvement
Finding 2	Equipment Inventory	X	X	Needs Improvement

Management concurs with the above findings and prepared management action plans to address deficiencies.

Internal Environment

The Research and Technology Implementation Office (RTI) Director began her role in November 2012, made changes to the invoice review process, and subsequently recommended this audit to provide assurance related to compliance with the RTI contract and regulations. No invoice review issues were identified; however, other opportunities for process improvement are included to further strengthen the program.

Summary Results

Finding	Scope Area	Evidence
1	Research Management System (RMS)	<ul style="list-style-type: none"> Confirmed that RMS is not on the list of applications to recover in the event of a business interruption/disaster Confirmed no Disaster Recovery procedures exist for RMS Confirmed that RMS is not an IT-supported application RMS installation failures have been noted on new hardware (i.e., desktops) One employee has RMS administrative privileges and is also a functional user (segregation of duties)

2	Equipment Inventory	<p>Review of the required biennial inventories of loaned equipment at 8 universities resulted in the following:</p> <ul style="list-style-type: none"> • 5 of 8 (63%) physical inventories were not conducted <p>Data for the 9 required elements for each equipment item was incomplete as noted below:</p> <ul style="list-style-type: none"> • 14 of 14 (100%) items did not have the percentage of federal participation listed • 6 of 14 (43%) items did not have a property identification number listed • 5 of 14 (36%) items did not have a specific location listed • 2 of 14 (14%) items did not have the cost listed • 1 of 14 (7%) items did not have date of purchase listed • 1 of 14 (7%) items did not have a description listed
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Audit Scope

The audit was performed by Azana Headspeth, Justan Lopez, Timothy Owen, and Jill Emery (Engagement Lead). The audit was conducted during the period from September 25, 2013 to November 22, 2013.

Methodology

The methodology used to complete the objectives of this audit included reviewing the following documentation:

- Review of key business and control processes
- Documents pertaining to the project, such as:
 - RTI Policies
 - OMB Circular A21
 - 2 CFR, § 215.34 Equipment
 - RMS manuals
 - TxDOT manuals
- Select invoices for compliance with contract and laws
- RMS application and data for business continuity
- Equipment inventory and reports

The following procedures were applied as needed to perform the audit work:

- Interview of key personnel
- Examination of original documents
- Analysis of software data

Background

This report is prepared for the Texas Transportation Commission, TxDOT Administration and Management. The report presents the results of the RTI Billings/Accounts Payable Audit which was conducted as part of the Fiscal Year 2014 Audit Plan.

TxDOT's technical research program was established by commission minute order September 29, 1948. The purpose of this program is to assist districts and divisions to effectively integrate research findings into TxDOT operations. A committee of TxDOT District Engineers, chaired by the Deputy Executive Director, decides what issues will be studied and the universities bid on the performance of the research. RTI is responsible to oversee the direction of the research, to ensure that the work is on track, and review/approve the invoices for this work for allowable and reasonable costs.

Implementation projects may include developing and delivering training on new techniques, developing operating manuals or guides for new equipment and tools, or the initial purchase of innovative equipment. The incremental cost to implement a new material or technique on a construction or maintenance project can also be included.

Individual research projects are cooperative endeavours between universities and the department. While university researchers perform the vast majority of the research work, every project has a RTI Project Manager who manages the project to ensure it provides value to TxDOT.

We conducted this performance audit in accordance with *Generally Accepted Government Auditing Standards* and in conformance with the *International Standards for the Professional Practice of Internal Auditing*. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

A defined set of control objectives was utilized to focus on financial, operational and regulatory goals for the identified scope areas. Our audit opinion is an assessment of the health of the overall control environment based on (1) the effectiveness of the enterprise risk management activities throughout the audit period and (2) the degree to which the defined control objectives were being met. Our audit opinion is not a guarantee against financial misstatement, operational sub-optimization, or regulatory non-compliance, particularly in areas not included in the scope of this audit.

Detailed Findings and Management Action Plans (MAP)**Finding No. 1: IT Controls and Security****Condition**

IT technical support for the Research Management System (RMS) is not defined and does not support RMS in the event of a business interruption/disaster. IT technical support is also unable to install or restore this application on new hardware, thus limiting current and possibly future upgrades. Finally, one team lead has RMS administrative privileges and is also a functional user.

Effect/Potential Impact

Insufficient disaster recovery capabilities ensuring the unavailability of RMS could negatively impact end user processing, delay invoice payments, and/or cause duplicate payments. The undefined line of technical support causes delays in mitigation of technical issues, delays of end users productivity, and inconsistent results when attempting to install new instances of RMS.

A functional user of RMS that has administrative privileges would have unlimited system access to change permissions of any system user and make unauthorized payments.

Criteria

Information System management, including backup and recovery and technical support of the program, is an essential part of RTI's assurance of business continuity.

Texas Administrative Code 202, Title 1, Part 10, Subchapter B, Rule 202.24 states, "State agencies shall maintain written Business Continuity Plans that address information resources so that the effects of a disaster will be minimized, and the state agency will be able either to maintain or quickly resume mission-critical functions."

TxDOT is one of the state agencies that have a contract for Data Center Services with the Department of Information Resources.

Exhibit 16 of the Data Center Services Multi-sourcing Service Integrator Master Services Agreement – "IT Service Continuity Management" states: Service Provider shall develop, maintain and implement a comprehensive Disaster Recovery Plan (DRP) for Services provided to DIR Customers and in relation to any DIR Customer-specific DRP's in each case subject to the DIR Customer's prior review and approval."

Cause

The RMS application is not utilized enterprise-wide; therefore, it is not currently supported.

Evidence

- confirmed that RMS is not on the list of applications to recover in the event of a business interruption/disaster
- confirmed no Disaster Recovery procedures exist for RMS
- confirmed that RMS is not an IT-supported application

- RMS installation failures have been noted on new hardware (i.e., desktops)
- one employee has RMS administrative privileges and is also a functional user (segregation of duties)

Management Action Plan (MAP):

MAP Owner: Sylvia Medina, RTI Program Manager

MAP 1.1:

- RTI has been working with IT/DES to modify PS-CAMS to replace RMS; PS-CAMS is temporarily on hold
- RTI will establish and complete a dialogue with the Chief Information Officer and IT to request their assistance in developing a longer term action plan to have RMS supported by IT, and to remediate the risk of not having RMS on a disaster recovery plan
- RTI will ask the Chief Information Officer to assign a co-MAP owner
- the administrator function will be transferred to staff in Operational Excellence

Completion Date: March 15, 2014

MAP 1.2:

- RTI will work with the Chief Information Officer to develop and implement a sustainable plan to eliminate the supportability risks associated with RMS
- the plan will identify how IT will support RMS and the disaster recovery process

Completion Date: August 15, 2014

Finding No. 2: Equipment Inventory**Condition**

Equipment information is incomplete in the inventory system and a required physical inventory is not conducted with all universities.

Effect/Potential Impact

Failure to properly inventory equipment may result in misplaced or lost equipment which can result in replacement costs and performance issues. Non-performance of Federal equipment requirements may result in withholding of payments, disallowing all or part of a payment, suspending or terminating a project or program, or withhold awards of future projects or programs.

Criteria

As equipment purchased through research projects is paid for with federal funds, the management of the equipment must meet the requirement of 2 CFR, § 215.34 Equipment. RTI has developed internal procedures to comply with the federal requirements.

2 CFR, § 215.34 Equipment (f)(1) states that equipment acquired with Federal funds shall include all the following information:

- description of the equipment
- identification number
- source of the equipment, including the award number
- whether title vests in the recipient or the Federal Government
- acquisition date
- percentage of Federal participation in the cost
- location and condition
- acquisition cost
- disposition data

Additionally, 2 CFR, §215.34 Equipment (f)(3) states “A physical inventory of equipment shall be taken and the results reconciled with the equipment records at least once every two years.”

Cause

Non-performance of physical inventories and equipment management according to the federal requirements is attributable to:

- recent turnover in staff
- RMS system not adequately designed to capture all required fields
- RTI staff decision not to perform on-site physical inventories if the university had less than \$500,000 of equipment. In lieu of the on-site verification, RTI staff attempted to verify the equipment with email confirmations

Evidence

RTI tracks equipment with a total cost of \$3 million. Testing covered 100% of equipment purchased in FY12 and FY13 for a total of 14 pieces of equipment costing \$321,132.

Review of the required biennial inventories of the equipment at the 8 universities resulted in the following:

- 5 of 8 (63%) physical inventories were not conducted

Data for the 9 required data elements for each equipment item was incomplete. The breakdown of missing data was as follows:

- 14 of 14 (100%) items did not have the percentage of federal participation listed
- 6 of 14 (43%) items did not have a property identification number listed
- 5 of 14 (36%) items did not have a specific location listed
- 2 of 14 (14%) items did not have the cost listed
- 1 of 14 (7%) items did not have date of purchase listed
- 1 of 14 (7%) items did not have a description listed

Management Action Plan (MAP):

MAP Owner: Sylvia Medina, RTI Program Manager

MAP 2.1:

- submit an Information Resource Request “IRR” to IT to either update RMS so that it captures all required information or to provide an alternate inventory database that interfaces with RMS
- create and implement a biennial physical inventory schedule

Completion Date: March 15, 2014

Summary Results Based on Enterprise Risk Management Framework

Audit Results Dashboard				
RTI Billing/Accounts Payable				
Business Objectives (Financial, Operational, Regulatory)		Scope Areas Evaluated		
		O, R	F, O, R	O, R
ERM Component	Control Activities	RMS	Invoice Review	Equipment Inventory
Control Environment	Organizational Tone			
	Planning			
	Forecasting			
	Goal-Setting			
	Cost-Benefit Analysis			
Risk Assessment	Business Continuity	1		
	Evaluations/Analysis			
	Management Action Plans			
Control Activities	Policies/Procedure Development & Maintenance	1		2
	Approvals/Authorizations	1		
	Supporting Evidence/Records Availability	1		2
	Segregation of Duties	1		
	Safeguarding Assets			2
Information & Communication	Information Classification			
	Information Input			2
	Information Processing			
	Output/Reporting and Messaging			
Monitoring	Exception Reporting Review			
	Reconciliations/Root-Cause Analysis			
	Peer Reviews			
	Management Representations			
Scope Area Assessment				

Rating Assessment Grid	Exemplary	Satisfactory	Needs Improvement	Unsatisfactory
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Closing Comments

The results of this audit were discussed with RTI Office management at an exit conference on December 6, 2013. In addition, results and action plans were discussed with TxDOT Administration. We appreciate the assistance and cooperation received from the RTI management and staff, as well as, IT support contacted during this audit.